UNIT 6 ECONOMIC LIBERALISATION AND GLOBAL DEPENDENCE IN LATIN AMERICA

Structure

6.1 INTRODUCTION

Economic liberalisation and global dependency are inter-connected processes of economic growth and development. While in most newly independent nations of Asia and Africa, development became a top priority after the Second World War, in the case of Latin America the surge toward development began in the 1930s, much earlier than in other regions. Before we discuss economic liberalisation and global dependency, it is better to define economic growth and distinguish it from social development at this stage. By economic growth, we may refer primarily to aggregate growth indices in the national economy or in any specific sector within. Overall social development can be defined in terms of progress in the areas of income distribution, life expectancy, educational attainment, health standards, and so forth; all are indicators of a general improvement in the welfare of a majority of inhabitants in a nation. Subsequently, we will see how the processes of economic liberalisation and the patterns of global dependency are critical in understanding the issues of growth and development in Latin America. This unit acquaints you with some key concepts, relevant theories, and recent trends in both areas as they relate to Latin America.

6.2 ECONOMIC LIBERALISATION

6.2.1 What is Economic Liberalisation?

Simply put, economic liberalisation emphasises the free play of the market forces, less state control in the areas crucial to production, distribution, and exchange of major goods and services, and it focuses on foreign trade, foreign investment, and incorporation of the new and modern technology into the domestic economy.

6.2.2 Historical Background

Since the discovery of Latin America, economic development of the region has been largely determined by forces located outside. First, it materialised in the form of the Spanish and Portuguese colonisation that resulted in the exploitation of the natural resources abundantly available in the virgin lands. Subsequently, in the years following political independence in the early 19th Century, the centres of exploitation shifted from Iberia to Western Europe and the United States. In all the recorded years of modern Latin American economic and social history, the primary resource sector had played a prominent role in the region's development.

During the early 16th Century, when the colonisation of the region was inaugurated by Spain and Portugal, until the early 20th Century, the bulk of the population was engaged in primary sector, earning its livelihood from farming, mining, forestry, and fishing. This sector, much of whose products were always destined for exports, had been the source of dynamism and growth in every Latin American country until the Great Depression of the 1930s. Many of the products for exports from this sector generally consisted of raw materials, such as copper, oil, gold, tin, iron ore, and agricultural products such as coffee, cocoa, and sugar. Not all of these products featured in the region's exports at the same time. In the course of the last several centuries, a variety of products had, at different points in time, dominated the region's trade. The changes in the location and nature of economic activity had taken place over a period of time as one product was displaced by another without affecting the position of the sector as the principal source of employment, income, and trade.

6.2.3 Role of Foreign Investment

In economies oriented toward foreign markets, foreign investment has historically played a very important role. This was true of Latin America as well. When foreign investment penetrated Latin America in the early years of colonisation, the motive was precisely to extract precious raw metals for export. The hunt for precious metals finally ended and farming became a primary occupation when precious metals were no longer found in the region. Throughout Latin America, the search for precious metals was the principal motive for exploration and settlement. The distribution of the population reflected the success of that search in different areas. The primary centres constituted virtually the only market for the diversification and development of the economy. Gradually, the exploration of precious metals turned to mining, and the development of mining required food production, cattle breeding, and ranching in the surrounding areas.

The hunt for raw materials of all kinds expanded as the Industrial Revolution swept across the European continent. A worldwide search for cheap raw materials and markets resulted in the penetration of British investment into Latin America. The British investment was soon followed by French, German, and Dutch investments.

With the demise of colonialism in the early 1800s, the economic power of the newly independent Latin American countries passed firmly into the hands of the primary producers, land owners, and the mine-owning class who accounted for nearly all of the region's exports. The last class especially benefited from free trade by acquiring wider markets for its output of raw materials and also by being able to satisfy its consumption needs for capital goods through imports.

To incorporate Latin America's natural resource sector into the world economy, Europeans invested in transport and other infrastructural bases or in industries processing resources for exports. Direct investment by major foreign multinational corporations (MNCs) became more prominent after the development of oil and metals, which were also meant for export. As the region became heavily integrated into the world economy in the second half of the 19th Century, its raw material exports became increasingly subject to fluctuations in the face of industrial activity and the rise in income in more advanced European nations.

The investment from US followed the European path, and by the middle of the 20th Century, it had replaced Europe as the main source of foreign investment in the region. Since Latin America proved to be a greater source of raw material than Africa and Asia, and a considerable market for dumping industrial and semi-industrial goods, the US investors saw its enormous potential in their global strategy of profit accumulation.

Latin America as a whole, by 1960, absorbed about one-fifth of the total US merchandise exports, providing thereby one of the important markets for US goods. These included consumer durables, capital goods and equipments, semi-manufacturing goods, and the sale of arms. As the sales to Latin America covered the entire range of national production in the US, the potential of Latin American economies as a major profitable outlet and a safe market increased in the eyes of US producers. Since foreign trade remained the lifeblood, this also meant that for economic health and further progress, Latin American economies became dependent on the US market.

6.2.4 Recent Trends in Economic Growth and Development

However, despite the fact that Latin America became an increasingly important market for products from the US and other industrialised nations, and a major source of raw material, its economic growth rate was not proportionate to its important status in these two areas. For example, according to the World Bank the Gross Domestic Product (GDP) in Latin American and Caribbean nations grew at 3.4 per cent annually during the 1990s, a much improved showing compared to the 1980s growth rate, which was recorded at 1.7 per cent annually. The same World Bank data also confirm that the per capita Gross Domestic Product of Latin America grew about 3.7 times between 1972 and 1992. But as a comparative frame of reference, the per capita GDP of the US increased four times during the same time period, which signifies an increasing gap in the economic status between Latin America and the United States.

But regional rates do not tell much about the individual country's fate. There have been wide-ranging variations in the GDP per capita growth rates within Latin America. One of the fastest growing Latin American countries between 1972 and 1992 was Brazil, whose GDP per capita increased 4.9 times, much higher than the US rate during the same time period. On the other hand, Venezuela, which possesses one of the largest oil reserves in Latin America, experienced an increase of only 2.2 times in GDP per capita. Chile's per capita GDP grew by 2.5 times, whereas Paraguay, one of the poorest countries in Latin America, experienced an increase of its per capita GDP by 4.6 times between 1972 and 1992. Remember that all of these countries had been historically vulnerable to fluctuations in the prices of their main export products in the international market. Since their respective national product growth rates had been wide ranging, we can assume that the overall economic growth and development are complex processes. These differences within the region tell us that the processes of growth and development are influenced by economic, political, and social factors that are both external and internal.

6.3 GLOBAL DEPENDENCY

Global dependency generally refers to the fact that countries are not really self-sufficient on many important dimensions of growth and development. Instead, countries depend much on external sources for their economic dynamism.

6.3.1 What is Dependency?

At the aggregate level, dependency refers to a country's precarious position in the areas of foreign trade, investment, technology transfer, military hardware, and creative ideas. In each of these dimensions, the country depends on foreign markets, actors, investment, and technology to function. In the absence of such support, the country is likely to stagnate and collapse economically. In the Latin American context, the countries depend on the United States primarily for much of their foreign investment, aid, technology transfer, and creative ideas, including cultural products in the form of movies. Latin American countries also rely disproportionately on the US market to sell their products.

6.3.2 Main Parties

There are three main parties to this asymmetrical exchange of products and services between the US and Latin America: (1) MNCs originating from the US; (2) Latin American State; and (3) Latin American industrialists. The MNCs from the US are catalysts to the introduction of new products, investments, and services to Latin America. Examples of such MNCs are General Electric, Microsoft, Exxon, General Motors, and Ford. These are mega corporations with assets that are larger than most Latin American economies. They have tremendous power to manipulate the prices and the terms of trade in their favour and away from Latin America. The Latin American state consolidates the position of these mega corporations through implementing economic, investment, and tax policies conducive to these foreign actors. Finally, the Latin American industrialists are intimately linked to the US multinationals through participation in the marketplace. Many of the Latin American industrial corporations are subsidiaries of major US corporations. Through an active cooperation of these three entities does the cycle of dependency sustain itself. It has done so for centuries.

6.4 IMPORTANT THEORIES OF GROWTH AND DEVELOPMENT

The growth and development of the Latin American countries can be explained in terms of a number of theories. We shall deal with four major ones: liberal-pluralist, dependency/world system, developmental, and neo-liberal.

6.4.1 Liberal-pluralist Theory

This theory concerns itself primarily with the individuals who make up society. It asserts that individual welfare is achieved when people are permitted to pursue their most appropriate economic and political interests. In this approach, collective welfare is interpreted as synonymous with the sum of individual interests. Much inspired by Adam Smith's writings, liberal pluralists believe in an invisible hand of the market place, which in turn implies a self regulating society.

However, there is a very crucial assumption in the liberal pluralist approach overlooked by many. The assumption of a self regulating market place is possible only if an impartial administrative and institutional infrastructure is provided. Capitalism cannot perform well without this kind of infrastructural support. In Latin America, there are not enough private individuals or corporations to maintain the infrastructural framework needed to make capitalism work, so the role of the state becomes all the more important.

The role of the market as the supreme arbiter of economic behaviour might have worked in Western Europe and the US, but in the context of Latin America, the effective operation of markets too often required the presence of strong and interventionist states. The scenario undoubtedly was present in the 1940s, 1950s, and 1960s, when most state-led development efforts were undertaken. Many have identified this period of Latin American development as the Import Substitution Industrialisation (ISI) phase. The ISI in brief implies that countries undertook policy measures through a combination of incentives, subsidies, and protection to facilitate a surge in domestic industries that would essentially cater to the national market.

Why such an emphasis on the national market? It is because the ISI policy came about as a reaction to the long standing vulnerability that the Latin American countries had experienced vis-à-vis the world market. For a long time, Latin America was the exporter of primary products but it had little control over the prices they could command. Historically, Latin American countries had faced a negative fiscal balance. In other words, they had always paid more for the products they imported than the prices they commanded for the products that were exported from their countries. The implementation of the ISI was expected to reverse that trend. An active role for the state was incorporated. The previous economic trend of laissez faire, generally adopted throughout the 19th Century and the early part of the 20th Century needed an overhaul. The market as the chief arbiter of economic relations between Latin America and the world economic powers did not benefit Latin America on many fronts, the most obvious of which had been the perpetuation of economic and social inequities. Obviously, then, the liberal-pluralist ideas were essentially disregarded in the 1940s in favour of a controlled market place in which states played an active role.

6.4.2 Dependency/World System Theory

The second major theory of Latin American development came from the Dependency/World System scholars. Scholars in the dependency tradition were heavily influenced by the Marxist-Leninist intellectual vision of society. In general, these scholars viewed the state as a dependent entity, an instrument of oppression serving the interest of the propertied class at the expense of the property- less class. The Latin American state was characterised as an agent of the dominant classes, which in turn served the economic and political interests of multinational corporations of the industrialised countries.

The World System variation of this perspective adds a twist to the argument and, instead of exclusively focusing on class, gives much importance to the location of the state in the world system. State capacity to facilitate growth or resolve conflict, in this view, depends on the country's structural location. In a hierarchical three-tier system, Latin American countries are likely to be located in the bottom two tiers and, therefore, the state elites do not have the capacity necessary to engage in successful societal transformation.

By the 1970s and 1980s, these simplistic views on the state were questioned. Based on the development experiences of the earlier decades, many scholars began to challenge the validity of the above approaches. The changing international environment which saw the United States and other leading capitalist nations becoming hard pressed in a world of more intense and uncertain economic and political competition facilitated more independent state activities worldwide.

Many studies published in the late 1970s and the early 1980s depicted the Latin American state as a forceful and a relatively independent actor in the development process. Some provided reasons for why and how modern state elites formulated and pursued their own goals. In Latin America, this argument is substantiated historically since the state has had a major say in the consolidation of the internal market through the adaptation of the strategy of Import Substitution Industrialisation (ISI). Under ISI, active state encouragement and subsidies contributed to an increasing penetration of foreign investment, especially in manufacturing. The various state incentives in the form of tariffs, foreign exchange, and imports encouraged foreign MNCs to set up subsidiaries in Latin America.

In the case of foreign investment, the state provided the infrastructure and complementary economic activities to make investment productive. Of course, how well the state played its part differed from country to country and therefore made a difference in the achieved level of growth and development.

However, only recently some dependency oriented scholars have entertained the possibility of an alliance of foreign capital and the state elite to foster industrial growth. In some cases, the alliance may incorporate domestic industrialists. In this line of argument, the MNCs collaborated with the state elites to stimulate the industrial sector. This helped Latin America to internationalise domestic markets. Specifically, unlike classical forms of dependency, the new alliance facilitated diversification throughout the economy. Such industrialisation, however, was possible only with the cooperation of the state elite.

6.4.3 The Developmental State

By the 1980s, many other regions, in particular East Asia, had overtaken Latin America in terms of the economic growth rate, relative egalitarian distribution of income, and social progress. These distinctive regional processes caused much debate in the governing circles of various Latin American countries.

The main objective of a developmental state is to lead and actively intervene in selected sectors of the economy, not in all sectors, as many Latin American states did after World War II, in order to guide and promote particular developmental goals. State incentives to tax, subsidy, control over credit, and pricing are used to sway the private sector and help it to become more competitive globally.

Most observers note that a successful developmental state possesses, first, a high level bureaucratic autonomy and, second, closer institutionalised cooperation with private businesses. But as far as the non-business elements, such as labour and the popular sectors are concerned, the developmental state had been notoriously authoritarian. Although the authoritarian feature seems to be slowly changing in recent years, it still continues to play a major role in the functioning of the developmental state. Through encouragement from the US, many Latin American countries began to imitate at least some East Asian policy postures, in particular the sphere of institutionalised cooperation with private businesses. Attempts by Latin American elites to replicate the East Asian economic experiences have contributed to the rise of a "neo-liberal state," to which we now turn.

6.4.4 The Neo-liberal State

The neo-liberal state is an important part of the current economic liberalisation process, also known as "globalisation." Overall, economic liberalisation is characterised by: (a) a greater emphasis on exports, particularly of the non-agricultural products, (b) an emphasis on manufacturing in the industrial sector, (c) an asymmetrical relationship between capital and labour in that capital is more mobile across national borders and uses the least expensive labour available, (d) substantial deregulation of state economic control and some privatisation of public sector enterprises, and (e) an alliance of international financial agencies, such as the IMF and the World Bank, foreign MNCs, domestic industrialists, and state elites. Not all of these characteristics have manifested themselves to the same degree across Latin America. The new line is that the state's role must be reduced and that it must encourage private international and domestic agents to do much of the heavy lifting in the economy.

6.4.5 Putting the Theories in Perspective

Throughout the 19th and early 20th centuries, Latin American states generally acted as liberal states, as posited by the liberal-pluralist theory. The state was not generally interventionist in the economy. Its economic policies facilitated foreign investment, first from Europe, and subsequently from the United States. However, despite the fact that Latin America pursued such a model of economic growth, its level of development remained behind most of Europe and the US. The lack of much self-sustaining growth contributed to the rise of dependency and world system theories. These theories argued that it is the nature of the world economy that perpetuates Latin America's status, which is dependent on the US and Western Europe. This status also limits how effective a role states can play in modifying market forces. Since the Second World War, most Latin American countries have pursued development models that required active intervention by states in the economy. States made policies relevant to all sectors in the development arena. They built infrastructure, regulated foreign investment, and guaranteed certain social safeguards to the poor and lower middle classes against economic malaise, largely caused by price fluctuations in the international market. However, the economies continued to depend on the international market for valuable foreign exchange they must earn to pay for the goods and services they must import. When prices fell, or when there was an urgent need to build and expand economic activity, states borrowed from foreign banks and international agencies, such as the World Bank and the International Monetary Fund. Borrowing is a good idea if the capacity to pay back the debt exists. But because these countries depend so much on the sale of their export products, a slight decline in the export prices caused havoc in their capacity to repay. Throughout the 1980s, one Latin American country after another faced the tremendous burden of repaying foreign debt to international banks. These perpetual problems of fiscal imbalance partly contributed to a revision in the perception of the state's role in development. Comparative analyses were conducted, which generally highlighted greater developmental achievements in other regions of the world, in particular in East Asia. Furthermore, the nature of ideological warfare internationally underwent change. With the statist, socialist models changing in favour of the market in the former East Bloc countries, a thorough re-analysis of development thinking was conducted, a process that eventually produced the neo-liberal state. But it has been about twenty years since most Latin American countries have begun experimenting with some form the economic liberalisation (or neo-liberal) policy.

Despite all the excitement about the superiority of the economic liberalisation programmes under the neo-liberal experiment, economic growth has not materialised on a sustained basis. In addition, because of the new emphasis on exports, Latin American economies are more vulnerable than ever before to the fluctuations in the health of the economies of the United States and European Union. Recent indicators of income inequality and poverty paint a bleak picture for Latin America as well. The income distribution in the region has progressively worsened since the 1970s. At the same time, some increase is observed in the military expenditure in the larger countries of the region. This has been done at the expense of social development. These larger countries, such as Brazil, Mexico, Argentina, and Peru are leaders of Latin America and the increase in military expenditures causes concern regarding the priorities of Latin American ruling elites.

6.5 SUMMARY

Economic liberalisation emphasises the free play of the market forces, less state control in the areas of foreign trade, foreign investment, and incorporation of the new and modern technology into the domestic economy. In the case of Latin America, ever since colonisation, economic development of the region has been largely determined by forces located outside and has been engaged in the primary sector producing raw materials such as copper, oil, gold, tin and agricultural products such as coffee, cocoa and sugar. After independence, to incorporate Latin America into the world economy, Europeans invested in transport and other infrastructural bases or in industries processing resources for exports including direct investment by major foreign multinational corporations (MNCs). By mid-20th Century the US had replaced Europe as the main source of foreign investment in Latin America. But in terms of economic growth, while the Gross Domestic Product of both US and Latin America has increased, that of the US has increased four times during the same period.

Dependency refers to a country's precarious position in the areas of foreign trade, investment, technology transfer, military hardware, and creative ideas. In each of these dimensions, the country depends on foreign actors. Three main parties to this asymmetrical exchange of products and services between the US and Latin America are: (1) MNCs originating from the US; (2) Latin

American State; and (3) Latin American industrialists. The growth and the development of Latin American countries can be explained in terms of four major theories: liberal-pluralist, dependency/world system, developmental, and neo-liberal. Through the 19th and early 20th centuries, Latin American states generally acted as liberal states, as posited by the liberal-pluralist theory. However, its level of development remained behind most of Europe and the US. This led to the rise of dependency theories which argued that it is the nature of the world economy that perpetuates Latin America's status, which is dependent on the US and Western Europe. It is only of late that Latin American countries have started experimenting with some form the economic liberalisation (or neo-liberal) policy. Yet, economic growth has not materialised on a sustained basis. On the other hand, because of the new emphasis on exports, it has made the Latin American economies more vulnerable to the fluctuations of United States and European economies.

6.6 EXERCISES

1. How has the economic development of Latin America evolved?

2. What is the role played by the United States of America in the economic development of Latin America?

3. What do you understand by dependency? Compare the theory of dependency with the other major theories of development and growth in Latin America.